

Message Text

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TO AMEMBASSY BRASILIA

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SUBJECT:SHORTAGES IN US COAL EXPORTS TO BRAZIL

1. SUMMARY: BRAZILIAN DELEGATION CALLED ON STATE AND COMMERCE OFFICIALS TO EXPRESS CONCERN ABOUT DECLINING US COAL EXPORTS TO BRAZIL. US OFFICIALS PROMISED TO INVESTIGATE BUT COULD MAKE NO REPEAT NO ASSURANCES ON FUTURE SUPPLIES.

2. AMB. ARAUJO CASTRO, ACCOMPANIED BY SARCINELLI GARCIA OF GOB'S STEEL HOLDING COMPANY SIDEBRAS, CALLED ON DEP. ASST. SEC. BOWDLER AUGUST 19 ON ABOVE SUBJECT. SARCINELLI EXPLAINED THAT THREE PRINCIPAL COMPANIES REPRESENTED IN SIDEBRAS (CSN, USIMINAS AND COSIPA) ARE EXPERIENCING SHORTFALLS OF ABOUT 30 BELOW LEVELS OF THEIR LONG-TERM CONTRACTS WITH US SUPPLIERS (EASTERN, ISLAND CREEK, MASSEY, CONSOLIDATION AND US SUBSIDIARY OF MITSUBISHI) WHICH HAS LEFT THEM WITH PRECARIOUSLY LOW STOCKS. SITUATION HAS BEEN AGGRAVATED BY SHORTAGE OF LOCAL BRAZILIAN COAL DUE TO UNCLASSIFIED

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TRANSPORTATION STOPPAGES CAUSED BY FLOODS. NORMALLY,

BRAZILIAN STEEL PRODUCTION USES ABOUT 30-35 LOCAL COAL (WHICH CONTAINS ROUGHLY 18 1/2 ASH) AND THE REST US COAL (6 ASH). COAL SHORTAGES ARE DECREASING BRAZIL'S STEEL PRODUCTION BY ESTIMATED 5, AT TIME WHEN BRAZIL ALREADY EXPECTS TO SPEND NEARLY \$1 BILLION FOR STEEL IMPORTS.

3. SARCINELLI NOTED THAT UNTIL 1974, US WAS BRAZIL'S ONLY COAL SUPPLIER; THIS YEAR US HAD BEEN EXPECTED TO SUPPLY ABOUT 80 OF BRAZIL'S COAL IMPORTS, WITH REMAINDER COMING FROM POLAND (HIGH AND MEDIUM VOLATILE COAL WITH ABOUT 7 ASH). THERE HAVE BEEN NO REPEAT NO PROBLEMS TO DATE WITH DELIVERIES FROM POLAND. US FIRMS, HOWEVER, CLAIMED FORCE MAJEURE FOR SHIPPING LESS THAN CONTRACTED AMOUNTS, ALTHOUGH POINTING OUT THAT SOME COAL REMAINED IN SPOT MARKET AT EXTREMELY HIGH PRICES. FIGURES AVAILABLE TO GOB SHOWED THAT BOTH US PRODUCTION AND EXPORTS HAVE INCREASED, SO CUTS IN SHIPMENTS TO BRAZIL APPEAR TO BE DISCRIMINATORY FROM BRAZILIAN POINT OF VIEW.

4. AMB. AND SARCINELLI BOTH EMPHASIZED THAT BRAZIL IS EXPANDING STEEL PRODUCTION, WITH THREE VERY LARGE BLAST FURNACES SCHEDULED TO BEGIN OPERATIONS THIS DECEMBER. INTERRUPTIONS IN OPERATIONS OF THESE FURNACES AND COKE OVENS ARISING OUT OF COAL SHORTAGES WOULD BE EXTREMELY COSTLY, SINCE THEY DAMAGE THE EQUIPMENT. SARCINELLI ESTIMATED BRAZIL WILL NEED 2 MILLION TONS OF IMPORTS FROM US IN 1974, 3 MILLION IN 1975, 4.3 IN 1976, 4.7 IN 1977, 6.0 IN 1978 AND 6.4 IN 1979. SARCINELLI ALSO NOTED THAT GOB COULD CONSIDER EXCHANGES OF US COAL FOR BRAZILIAN IRON ORE IF USG WOULD BE INTERESTED.

5. BOWDLER RESPONDED THAT HE UNABLE TO GIVE ASSURANCES OF SUPPLY NOR PROVIDE DETAILED EXPLANATIONS FOR BRAZIL'S DIFFICULTIES WITH US COMPANIES, BUT WAS ABLE TO ASSURE GOB THAT US CONCERNED ABOUT COAL PRODUCTION AND HAS BEEN MAKING EFFORTS TO INCREASE OUTPUT. FOR SHORT TERM, SHORTAGES OF COAL LIKELY TO CONTINUE, AND STOCKPILING IS HEAVY NOW IN ANTICIPATION OF EXPECTED UMW STRIKE IN MID-NOVEMBER, AS WELL AS CURRENT UMW MEMORIAL HOLIDAYS. REPRESENTATIVE OF DEPARTMENT'S FUELS AND ENERGY OFFICE
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NOTED THAT ALTHOUGH US COAL PRODUCTION HAD INCREASED OVER LAST YEAR IT WAS NOT SUFFICIENT TO MEET BURST OF DEMAND CAUSED BY PETROLEUM CRISIS. DISPARITY BETWEEN OVER-ALL EXPORT INCREASE AND SHORTFALLS TO BRAZIL MAY BE PARTLY DUE TO "CAPTIVE US PRODUCTION," I.E. SOME US MINES ARE CONTROLLED BY EUROPEAN AND JAPANESE INVESTORS. US FIRMS HAVE ENCOUNTERED PRODUCTION DIFFICULTIES OVER PAST YEAR DUE TO MATERIALS SHORTAGES AND LABOR PROBLEMS AND THIS

APPARENTLY IS REASON WHY THEY HAVE INVOKED FORCE MAJEUR CLAUSES IN CONTRACTS TO JUSTIFY SHORTFALLS FOR DOMESTIC AND EXPORT CUSTOMERS.

6. ARAUJO CASTRO SAID HE REALIZED THIS IS PROBLEM WITHIN US PRIVATE SECTOR BUT THOUGHT IT USEFUL NEVERTHELESS TO ACQUAINT DEPT. WITH GOB'S CONCERN ON STABILITY OF SUPPLY AND SEEK DEPARTMENTAL HELP IN EXAMINING POSSIBLE SOLUTIONS. REPRESENTATIVES OF PRIVATE BRAZILIAN STEEL INDUSTRY HAVE ALREADY VISITED US SUPPLIERS, WHO PROMISED THEY WOULD TRY TO IMPROVE PERFORMANCE ON BRAZILIAN CONTRACTS, ALTHOUGH REQUIRING PAYMENT OF SURCHARGE. BOWDLER THANKED BRAZILIANS FOR THEIR PRESENTATION AND PROMISED TO LOOK INTO SITUATION.

7. BRAZILIANS ALSO CALLED ON DEPT. OF COMMERCE ON AUG. 20 (DEP. DIR. POLANSKY OF BUREAU OF RESOURCES AND TRADE ASSISTANCE, AND DEP. DIR. CHAMBERLAIN OF OFFICE OF ENERGY PROGRAMS) WITH ESSENTIALLY SAME PRESENTATION AS TO STATE. IN RESPONDING TO BRAZILIAN COMPLAINT THAT US SUPPLIERS HAD STEERED THEM TO VERY HIGH-PRICED SPOT PURCHASES, CHAMBERLAIN NOTED THAT SPOT SALES NORMALLY AMOUNTED TO LESS THAN 2% OF SALES BUT THAT HE WOULD FIND OUT WHETHER THERE HAD BEEN A SIGNIFICANT EXPANSION OF SPOT MARKET IN RECENT MONTHS. OTHER THAN THIS TYPE OF INVESTIGATION, THERE WAS LITTLE THE USG COULD DO TO HELP BRAZILIANS.

8. EMBASSY MAY WISH TO INFORM APPROPRIATE GOB OFFICIALS THAT SUBSEQUENT INQUIRIES BY COMMERCE SHOWED THAT VOLUME OF SPOT SALES HAD INDEED INCREASED. MOST OF 16 EXPORT INCREASE (ABOUT 4 MILLION TONS) REGISTERED IN FIRST HALF OF 1974 IS ACCOUNTED FOR BY INCREASED OR RESUMED PRODUCTION IN SMALL AND MARGINAL MINES, WHICH IS SOLD AT VERY

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HIGH PRICE (\$80-100 PER TON RATHER THAN USUAL CONTRACT PRICES OF \$30-35) ON SPOT MARKET EVEN THOUGH IT IS GENERALLY OF LOW QUALITY. HOWEVER, COMMERCE COULD FIND NO EVIDENCE TO DATE OF WRONG-DOING ON PART US COMPANIES. IF BRAZILIANS SHOULD UNCOVER ANY ' EVIDENCE OF FRAUD, THEY COULD TAKE LEGAL ACTION AGAINST THEIR SUPPLIERS IN US COURTS. DEPT. WILL KEEP EMBASSY INFORMED OF FURTHER DEVELOPMENTS AND WILL KEEP IN TOUCH WITH BRAZILIAN EMBASSY HERE. KISSINGER

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